FISCAL NOTE

HB 397 - SB 556

March 16, 2013

SUMMARY OF BILL: Establishes the Enterprise Fraud Program Office (Enterprise Office) within the Office of the Inspector General (OIG) to implement a fraud, waste, and abuse detection and prevention system across state agencies and programs. The Enterprise Office is authorized to enter into a vendor license agreement in an amount not to exceed the potential cost savings estimated by the Enterprise Office. All state agencies are required to participate in the Enterprise Office's efforts to develop an automated fraud detection system. The program will have access to all state databases, to allow fraud detection analytics software to analyze the data submitted. The fraud detection software will have specified necessary components and capabilities including automated detection and alerting, continuous monitoring of program transactions and activity, ability to detect non-transaction fraud such as program eligibility issues and identity theft, and the ability to extend and adapt to all areas of state government.

The Enterprise Office will initiate a pilot project within 120 days of the bill's effective date to implement state-of-the-art fraud detection technology that can support fraud, waste, abuse, and improper payment detection and prevention across state agencies, with the pilot project being deployed initially for the purpose of data mining of TennCare program data. The software will store and have access to, and have the capability of data mining, all fraud and abuse data submitted to the OIG pursuant to Tenn. Code Ann. § 71-5-2515.

Not later than six months after implementation of the program and deployment of the software, the Enterprise Office is required to submit a report detailing actual and projected savings and changes, if any, to be made to increase efficiency to the appropriate committees of the General Assembly. The report will suggest additional agencies to be added to the program and the timeline for implementing the software within each agency. Annual progress reports will be submitted with the annual report submitted by OIG pursuant to § 71-5-2511.

Recoveries realized from the initial program with TennCare, and later added agencies, will be placed in a non-reverting fund to operate the Enterprise Office.

ESTIMATED FISCAL IMPACT:

> **Increased State Expenditures - $9,000,000/FY14-15**
> **$1,500,000/FY15-16 and Subsequent Years**

> **Other Fiscal Impact - Reduced state expenditures will occur in future fiscal years due to implementation of the automated fraud detection system. Due to many unknown**

factors, including the time required to develop the system, the identity of participating agencies, and the types of fraud targeted it is not possible to quantify the eventual recovery of investment that might occur as a result of implementing the system.

Assumptions:

* According to the Bureau of TennCare (the Bureau) and the Department of Finance and Administration, the activities of the Enterprise Office, including development of an automated fraud detection system, will not be eligible for federal matching funds.
* According to the Bureau, participating managed care organizations (MCOs) currently utilize data mining of claims. The savings from the MCO data mining are built into the capitation rates paid to the MCOs.
* According to the Bureau, federal law requires that the Federal share of any recoupment by a state Medicaid agency be returned to the Federal government. These funds could not be placed in the fund established by the bill to fund the activities of the Enterprise Office.
* According to an IDC Government Insights white paper, an enterprise fraud system developed for the Washington State Department of Labor and Industries was built to desktop implementation in approximately one year (from January 2010 to December 2010) and required an initial investment of $5,000,000.
* According to the Bureau, developing the automated fraud detection system as described in the bill with the capabilities required by the bill will result in one-time increased state expenditures of $7,500,000 ($3,000,000 for hardware and software licensing + $4,500,000 for application design and development) and recurring state expenditures of $1,500,000 for annual operation of the system.
* According to the Department of Finance and Administration, one year will be required to develop an RFP for the proposed automated fraud detection system.
* Reduced state expenditures will result from implementation of the automated fraud detection system in future fiscal years. Due to many unknown factors, including the time required to develop the system, the identity of participating agencies, and the types of fraud targeted it is not possible to quantify the eventual recovery of investment that might occur as a result of implementation system.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Lucian D. Geise, Executive Director

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